

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## **Management's Discussion and Analysis**

### **Overview of the Railroad Retirement Board**

#### **Mission**

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

*The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

#### **Major Program Areas**

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries; but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and

taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the RUIA in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

### *Railroad Retirement Act*

Under the RRA, retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

The primary source of income for the railroad retirement and survivor benefit program is payroll taxes paid by railroad employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for the investment of railroad retirement funds in non-governmental assets, as well as in governmental securities. This legislation also established the National Railroad Retirement Investment Trust (NRRIT), whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2004, the RRB trust funds realized a net of \$3.4 billion, representing almost 40 percent of RRB financing sources (excluding transfers to/from the NRRIT), through the financial interchange.

Other sources of income currently include return on investments, revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

#### *Railroad Unemployment Insurance Act*

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees. The latest RRB financial report on the unemployment and sickness insurance system indicated that experience-based contribution rates will keep the system solvent even under the most pessimistic employment assumptions.

## Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of 2 administrative funds, 3 trust funds, 2 general funds and 2 deposit funds. Assets under the control of the NRRIT are not reflected in the financial statements, but are included in the Statement of Social Insurance under the Required Supplementary Stewardship Information.

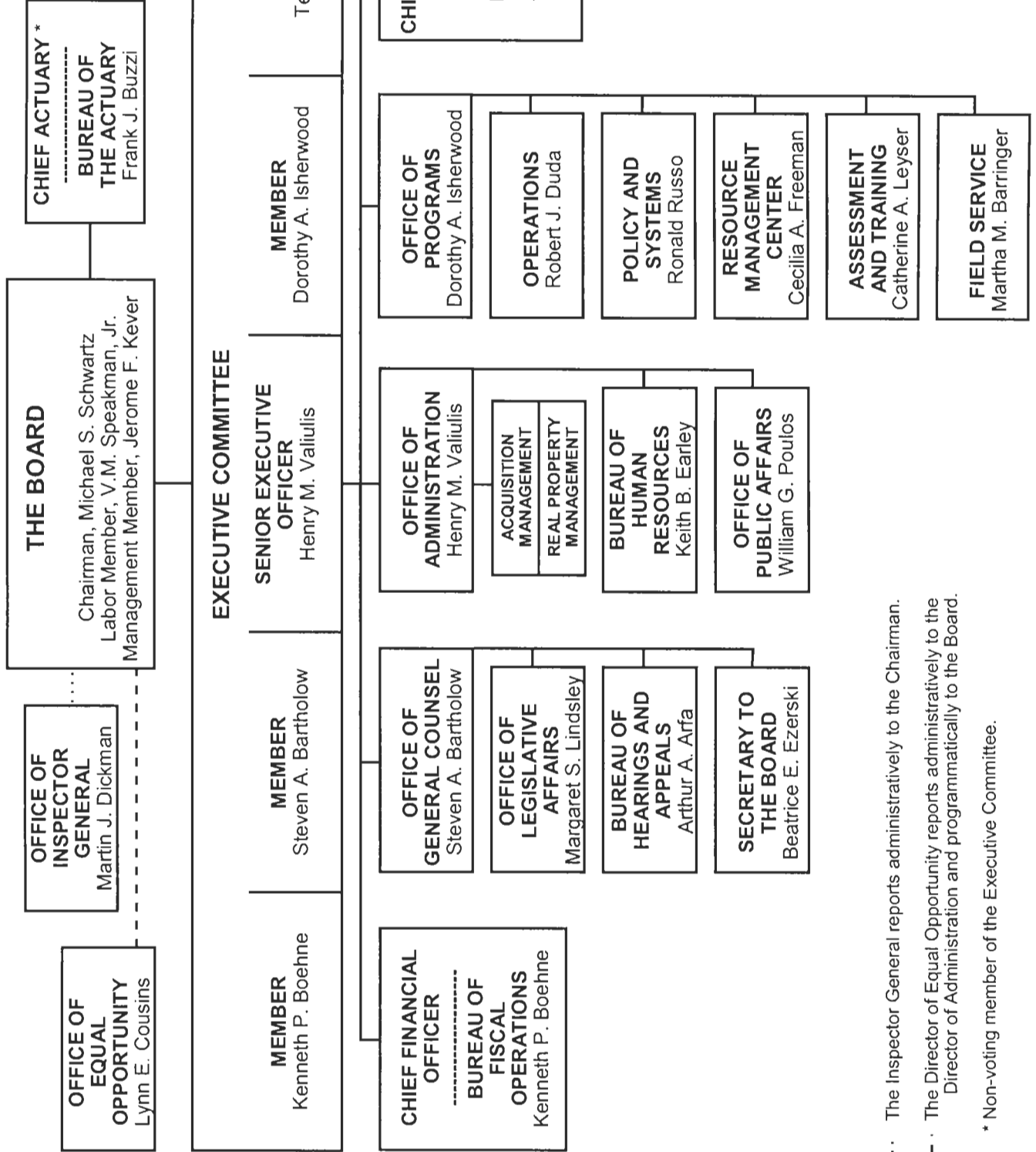
## RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and professionals to develop and operate the extensive data processing systems needed for maintaining earnings records, calculating benefits, and processing payments, and provide other support functions. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud, or abuse in the benefit programs.

The RRB's headquarters are located at 844 N. Rush Street in Chicago, Illinois. At September 30, 2004, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 12.

# U.S. RAILROAD RETIREMENT BOARD

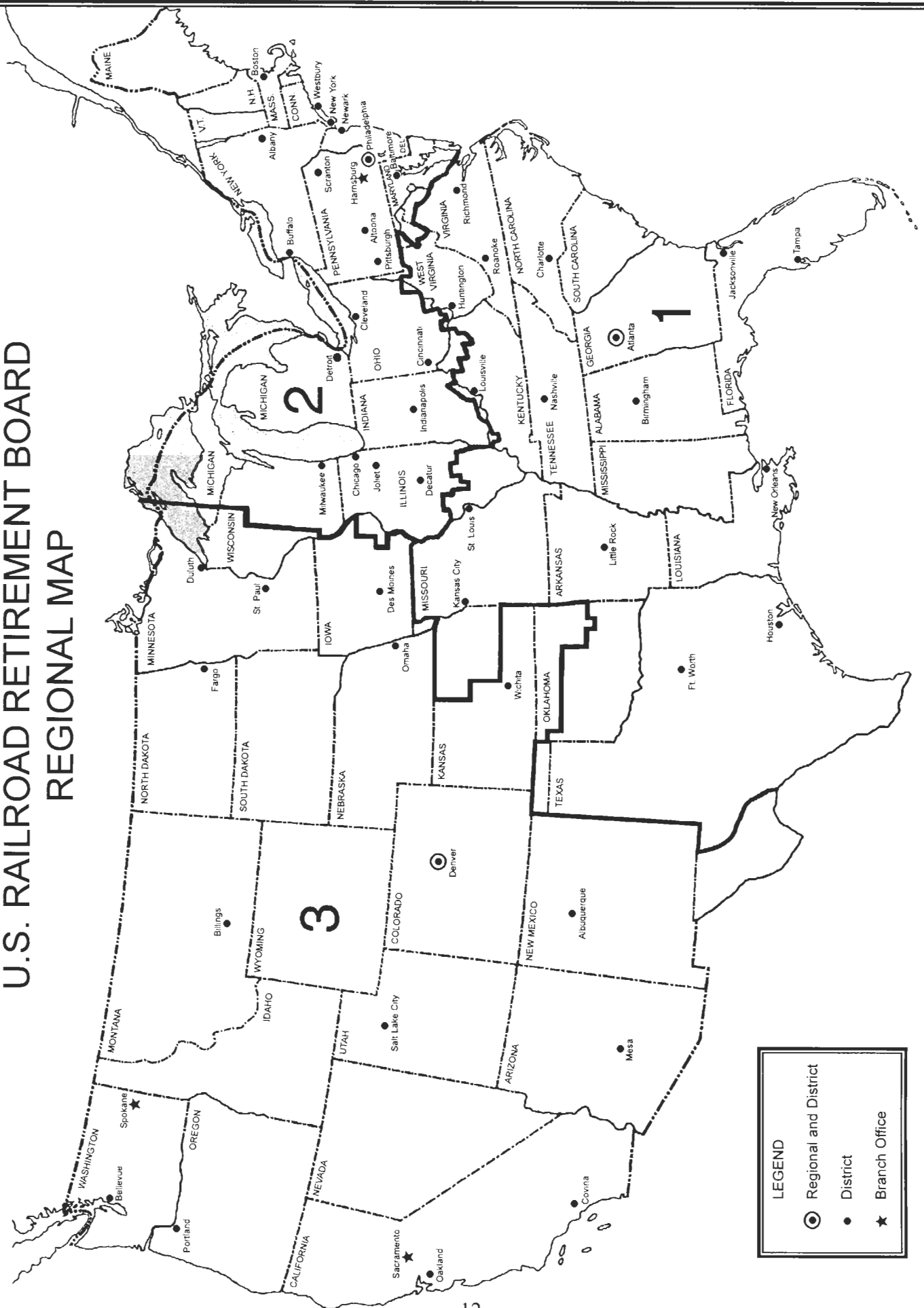


..... The Inspector General reports administratively to the Chairman.

- - - - - The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

\* Non-voting member of the Executive Committee.

# U.S. RAILROAD RETIREMENT BOARD REGIONAL MAP





## Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

### Net Position, Financing Sources, and Benefit Payments (millions)

<u>NET POSITION AT SEPTEMBER 30</u>	<u>2004</u>	<u>2003</u>
Social Security Equivalent Benefit Account	\$434.2	\$422.0
Railroad Retirement Account	224.5	113.0
Railroad Retirement Administration Fund	1.4	3.7
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	79.9	43.7
Administrative Expenses	7.7	7.8
Limitation on the Office of Inspector General	.1	.1
Dual Benefits Payments Account	12.5	12.1
Federal Payments to the Railroad Retirement Accounts	.3	.2
Total	<u>\$760.6</u>	<u>\$602.6</u>
<u>FINANCING SOURCES FOR FISCAL YEAR</u>		
Social Security Equivalent Benefit Account	\$5,440.8	\$ 3,962.9
Railroad Retirement Account	3,760.7	(13,156.0)
Railroad Retirement Administration Fund	109.7	108.2
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	118.7	129.1
Administrative Expenses	(.2)	1.0
Limitation on the Office of Inspector General	6.9	6.2
Dual Benefits Payments Account	117.6	129.4
Federal Payments to the Railroad Retirement Accounts <u>1/</u>	<u>435.2</u>	<u>430.1</u>
Total	<u>\$9,989.4</u>	<u>\$(8,389.1)</u>
<u>BENEFIT PAYMENTS FOR FISCAL YEAR <u>2/</u></u>		
Social Security Equivalent Benefit Account	\$5,257.3	\$5,158.3
Railroad Retirement Account	3,648.2	3,587.7
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	37.0	43.9
Sickness Insurance	45.6	50.2
Dual Benefits Payments Account	<u>117.3</u>	<u>129.4</u>
Total	<u>\$9,105.4</u>	<u>\$8,969.5</u>

1/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

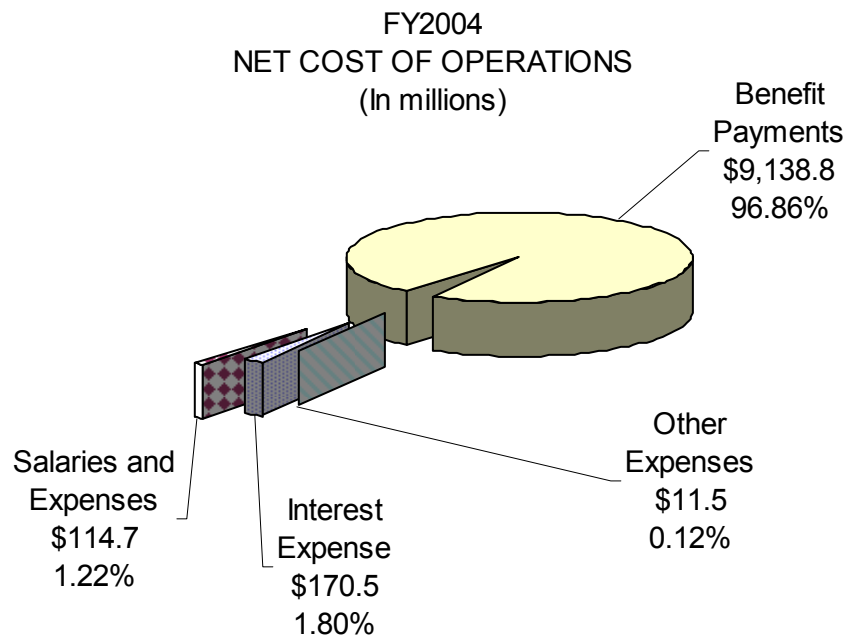
2/ Net of recoveries and excludes SSA benefit payments.

### Comparison of Net Cost of Operations and Financing Sources

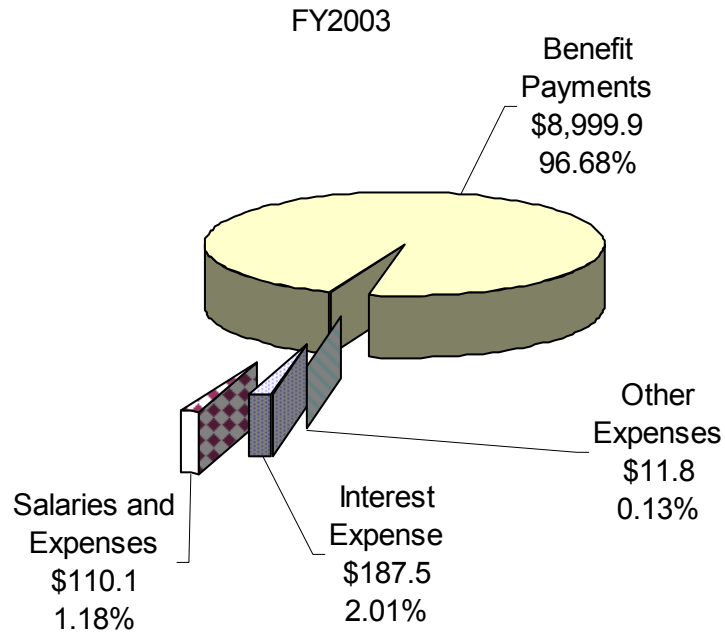
The net cost of operations for fiscal years 2004 and 2003 were \$9,396.3 million and \$9,273.5 million, respectively. Amounts in the RR Account not needed to pay current administrative expenses are transferred to the NRRIT. Amounts in the SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the NRRIT or the RR Account. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2003 to fiscal year 2004 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2004 and 2003 are shown on the following pages.

#### **NET COST OF OPERATIONS (In millions)**

	FY 2004	FY 2003	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	\$170.5	\$ 187.5	\$(17.0)	(9.1)%
Salaries and expenses	114.7	110.1	4.6	4.2
Benefit payments – RRB	9,138.8	8,999.9	138.9	1.5
Other expenses	11.5	11.8	(0.3)	(2.5)
Subtotal	\$9,435.5	\$9,309.3	\$126.2	1.4%
Less: Earned revenues	39.2	35.8	3.4	9.5
Net cost of operations	\$9,396.3	\$9,273.5	\$122.8	1.3%



Totals \$9,435.5 excluding reimbursements and earned revenues of \$39.2.



Totals \$9,309.3 excluding reimbursements and earned revenues of \$35.8.

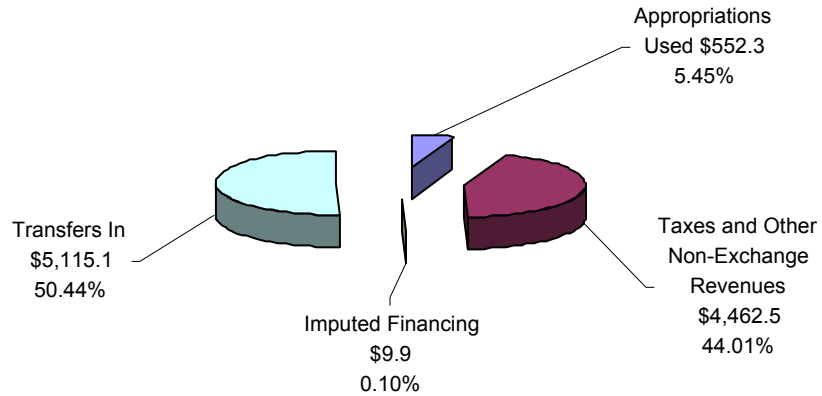
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2003 to fiscal year 2004.

**FINANCING SOURCES**  
(In millions)

	<u>FY 2004</u>	<u>FY 2003</u>	<u>AMOUNT OF INCREASE (DECREASE)</u>	<u>PERCENT OF INCREASE (DECREASE)</u>
Appropriations used	\$ 552.3	\$ 559.4	\$ (7.1)	(1.3)
Taxes and other non-exchange revenues:				
Payroll taxes	4,421.4	4,358.6	62.8	1.4
Interest revenue and other income	45.9	277.5	(231.6)	(83.5)
Carriers refunds – principal	(4.8)	(181.6)	176.8	97.4
Subtotal	<u>\$ 4,462.5</u>	<u>\$ 4,454.5</u>	<u>\$ 8.0</u>	<u>0.2</u>
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	9.9	9.8	0.1	1.0
Transfers in:				
Financial Interchange, net	3,421.3	3,314.7	106.6	3.2
NRRIT	1,564.0	300.0	1,264.0	421.3
Other transfers	129.8	143.7	(13.9)	(9.7)
Subtotal	<u>5,115.1</u>	<u>3,758.4</u>	<u>1,356.7</u>	<u>36.1</u>
Other	<u>0.0</u>	<u>1,586.6</u>	<u>(1,586.6)</u>	<u>(100.0)</u>
Subtotal	<u>\$10,139.8</u>	<u>\$10,368.7</u>	<u>\$ (228.9)</u>	<u>(2.2)</u>
Less: Transfers out to NRRIT	<u>586.0</u>	<u>19,188.0</u>	<u>(18,602.0)</u>	<u>(96.9)</u>
Total	<u>\$ 9,553.8</u>	<u>\$(8,819.3)</u>	<u>\$18,373.1</u>	<u>208.3</u>

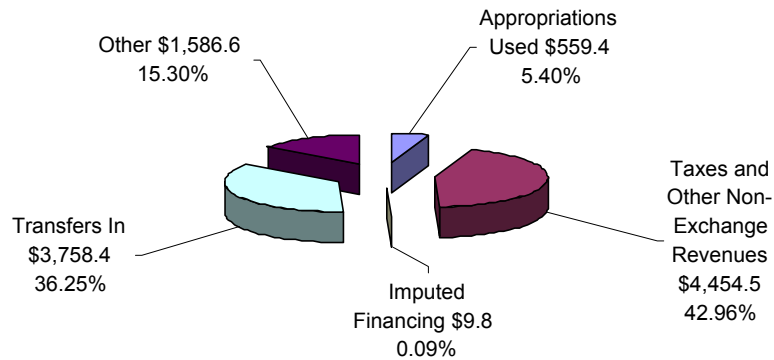
# FINANCING SOURCES (In millions)

FY 2004



**Total Financing Sources \$10,139.8 million, excluding transfers to the National Railroad Retirement Investment Trust of \$586 million.**

FY 2003



**Total Financing Sources \$10,368.7 million, excluding transfers to the National Railroad Retirement Investment Trust of \$19,188.0 million.**

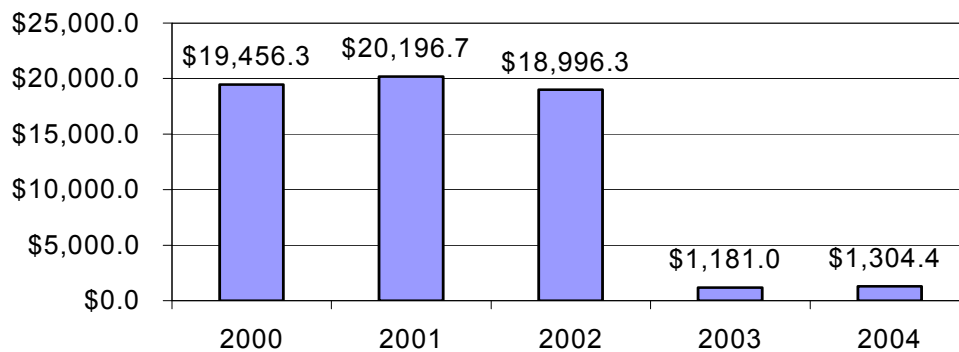
## Railroad Retirement Investments

The book value of all railroad retirement investments, including accrued interest, increased to \$1,304.4 million as of September 30, 2004, from \$1,181.0 million on September 30, 2003. The graph below reflects the railroad retirement book value of investments from September 30, 2000 through September 30, 2004.

### **INVESTMENT BALANCES (AT BOOK VALUE)**

**AT SEPTEMBER 30, 2000 - 2004**

**(In millions)**

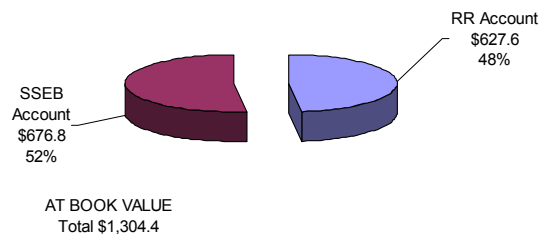


The following chart shows the portfolio of the railroad retirement investments as of September 30, 2004.

### **RAILROAD RETIREMENT INVESTMENTS**

**AS OF SEPTEMBER 30, 2004**

**(In millions)**



#### Railroad Retirement Account

On September 30, 2004 and 2003, the book values of the RR Account investments, including accrued interest, totaled \$627,605,867 and \$503,383,945, respectively. The balance on September 30, 2004, consisted of \$626,589,000 in 3.5 percent par value specials (with market value equal to face value) maturing on October 1, 2004, and \$1,016,867 in accrued interest. The balance on September 30, 2003, consisted of \$502,923,000 in 3.5 percent par value specials (with market value equal to face value) maturing on October 1, 2003, and \$460,945 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

#### Social Security Equivalent Benefit Account

On September 30, 2004 and 2003, the book values of the SSEB Account investments, including accrued interest, totaled \$676,769,854 and \$677,613,163, respectively. The balance on September 30, 2004, consisted of \$675,574,000 in par value specials of 3.5 percent maturing on October 1, 2004, and accrued interest of \$1,195,854. The balance on September 30, 2003, consisted of \$676,348,000 invested in par value specials of 3.5 percent maturing on October 1, 2003, and accrued interest of \$1,265,163.

#### National Railroad Retirement Investment Trust

The NRRIT was established pursuant to Section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) that was signed into law on December 21, 2001. The RRSIA set February 1, 2002, as the date that the NRRIT was to become effective.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT's Board of Trustees is comprised of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six Trustees.

In fiscal year 2004, the RRB transferred \$586 million to the NRRIT, which is in addition to the \$19.188 billion and \$1.502 billion transferred in fiscal years 2003 and 2002, respectively. During fiscal year 2004, the NRRIT transferred \$1.564 billion to the RRB for the payment of tier 2 benefit payments.

At the end of fiscal year 2004, the NRRIT reported cash and investments with a market value of \$25,036,447,133. For fiscal year 2004, the NRRIT reported \$2,962,071,871 in net realized and unrealized gains and \$44,442,300 in interest and dividends. Total NRRIT fiscal year 2004 reported administrative expenses (including investment management fees) amounted to \$7,522,620. Also, the NRRIT has reported that for the year ended September 30, 2004, their investment portfolio achieved a 13.3 percent rate of return. This compares favorably to its composite benchmark index which increased 12.4 percent for the year. This information reported by the NRRIT has not been reviewed by the NRRIT's auditors. Also, this information has not been consolidated into the RRB's financial statements and was not audited by the RRB's auditors.

In fiscal year 2005 and future years, the RRB will continue to coordinate activities with the NRRIT. The RRB will assure that funds not needed in the short term to pay benefit payments, pay administrative expenses, and provide appropriate fund balances are made available to the NRRIT for investment purposes. The NRRIT will, in turn, provide funds to the RRB, or a properly authorized disbursement agent, when needed to pay future benefit payments.

#### Summary Results of Annual Audit

The RRB financial statements for fiscal year 2004 were audited by the RRB's OIG. The OIG provided the RRB with a letter dated October 25, 2004, that contained the following:

- Opinion on the Financial Statements,
- Report on Internal Control, and
- Compliance with Laws and Regulations.

#### ***Opinion on the Financial Statements***

The OIG issued an unqualified, "clean," opinion on the RRB's financial statements, as follows:

"The RRB's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and change in net position; combined budgetary resources; and reconciliation of net cost to budgetary resources as of and for the fiscal years ending September 30, 2004 and 2003."

#### ***Report on Internal Control***

In its evaluation of internal controls, the OIG noted one material weakness concerning the RRB's information security program and one reportable condition.

**Material Weakness – Information security.** The OIG report stated: "During FY 2004, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act. Our reviews disclosed continued weaknesses in many areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control.

"The RRB has undertaken the job of strengthening information security and has implemented many corrective actions recommended by the OIG and other technical specialists. However, the agency has not completed the corrective action needed to eliminate the previously reported deficiencies in training and access controls that were the basis for the OIG's original finding of material weakness."

**Reportable Condition – Compliance.** Regarding the reportable condition, the OIG report indicates that the RRB does not have adequate controls to ensure that changes to laws and regulations are fully implemented. Our Office of General Counsel will be taking action to help ensure that laws and regulations are fully implemented in a timely manner.



### ***Compliance with Laws and Regulations***

The OIG report stated: “Our tests of compliance with selected provisions of laws and regulations disclosed two instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or Office of Management and Budget (OMB) guidance as described below.

“Our tests of interest on program debt disclosed that the agency had not implemented a change to the Code of Federal Regulations (CFR) that would have delayed interest charges on delinquent debt by an additional 30 days under 20 CFR section 200.7(b)(2).

“In addition, the RRB has not yet implemented provisions of the Railroad Retirement and Survivors Improvement Act of 2001 that require railroad retirement benefits be disbursed by a qualified non-governmental financial institution, rather than the department of the Treasury. Agency management is currently seeking legislative relief from this requirement.”

### **Program, Operations, and Financial Performance and Results**

During fiscal year 2004 (ended September 30, 2004), railroad retirement and survivor benefit payments totaled \$9.0 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled \$114.7 million in fiscal year 2004, net of recoveries. During fiscal year 2004, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost \$1.2 billion to about 131,000 beneficiaries.

In fiscal year 2004, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2004 included:

- Providing payments to 649,000 retirement and survivor beneficiaries.
- Providing payments to 12,000 unemployment insurance beneficiaries.
- Providing payments to 22,000 sickness insurance beneficiaries.
- Processing 26,860 (through May 2004) retirement, survivor, and disability applications for benefits and then determining eligibility.
- Processing 139,850 (through May 2004) applications and claims for unemployment and sickness insurance benefits.
- Issuing 260,860 (through May 2004) certificates of employee railroad service and compensation.

During fiscal year 2004, the RRB used 49 specific program performance indicators to manage and track progress in meeting its long-term strategic plan goals. These measures were established in the RRB's Operating Plan for Fiscal Year 2004, and were accomplished with direct appropriations of \$100.7 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to these indicators is covered in the following section of this report. For 45 performance measures, actual full-year performance results for fiscal year 2004 were not available at the time this report was published. For those measures, we reported either part-year performance information or actual results from prior years. Those performance results, and administrative expenses by strategic goal, will be provided in our next Performance and Accountability Report.

## Summary of Achievement by Strategic Goal

**Strategic Goal I: Provide Excellent Customer Service.** We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2004, we expect that overall payment accuracy rates will exceed 99 percent, and that most timeliness goals will be met. The disability claims processing timeliness goal for the first 6 months of the fiscal year was adversely affected by a changeover to a new contractor for special medical examinations and a new automated system documenting the decision-making process in occupational disability cases, which represent the majority of the work. Although the new contract will save the agency over \$5 million over the life of the contract, closing out the old contract and starting the new one resulted in delays in scheduling and receiving medical examinations needed to make a disability determination. We improved our performance significantly in April and May 2004.

**Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources.** The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2004, we expect to meet or exceed our performance goals.

### Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits. We have also embraced new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of initial railroad retirement applications and those receiving unemployment and sickness insurance benefits. The RRB's web site ([www.rrb.gov](http://www.rrb.gov)) has also been very well-received by the public and was recently rated in the top 10 percent of Federal government sites reviewed, excelling in help features, ease of use and accessibility.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from recent legislative changes to the RRA, and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, the RRB's Strategic Plan for 2003-2008 has established the following two strategic goals on which we will focus our efforts.

#### *Provide excellent customer service.*

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

*Serve as responsible stewards for our customers' trust funds and agency resources.*

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in five key areas:

- Strategic Management of Human Capital,
- Competitive Sourcing,
- Improved Financial Performance,
- Expanded Electronic Government, and
- Budget and Performance Integration.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.